RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958 •

Post Office Box 1759, La Jolla, California 92038 | 26 Letters Per Year • $250 annually | www.dowtheoryletters.com

Sept. 22, 1999 **LETTER 1287**

Sept. 10 DJIA 11028.43; PTI 5305; A-D Ratio +0.52
Sept. 17 DJIA 10803.63; PTI 5293; A-D Ratio -0.38
Dow Yield: 1.57%; Dow Price/Earnings: 25.8
Dow 144-day MA: 10623; Dow 34-day MA: 10943
Dow Times Book Value: 6.51; PTI 89-day exp. MA: 5335
Percentage of Undervalued Blue-chips: 5%
Gold 34-day MA: 258.2

THE PICTURE: Illiquid: This is an illiquid market. It's a market that sees the Dow jump 100 or more points up or down on every scrap of news that comes out. CPI up, trade balance down, retail sales up, dollar down -- anything will serve to whip this market around -- well, at least for an hour or two.

I've been stressing that it's not the news that's important, it's the market's REACTION to the news that's important. Over the last month, the stock market's reaction to news -- **good or bad** -- has been to sell off. This is obvious bearish action. It's the action of a **liquidating market.** It's characteristic of a market in which powerful interests **want "out."**

Since April 3 of 1998, the majority of stocks have been declining. We know that courtesy of the advance-decline ratio (see page 2 chart). Up to recently, I don't think this has made much of an impression on most investors. But I believe that this naive (call it optimistic) attitude is beginning to change.

Statistics show that investors are now putting less money into mutual funds. Volume on the NYSE has been declining over recent months. On September 9, the *WSJ* published a front page article pointing to the fact that the stock market was simply whipping back and forth within a "trading range." Net result -- the Dow (which is the main gauge that the public watches) has been going nowhere. For this reason, many investors and traders are becoming frustrated, if not actually a bit discouraged. Furthermore, "big money," sensing the general deterioration, has been parking cash on the sidelines (and this in turn has caused increasing illiquidity).

In the meantime, the advance-decline ratio has sunk to its lowest level in 17 months. So actually, the market is doing something that I have long predicted it would do -- I call it **attrition**. What I see happening is that the **majority** of stocks are slowly but relentlessly eroding away. However, this erosion or attrition has been largely covered up by strength in a limited number of large-cap stocks -- and more recently just the tech stocks.

It is this attrition that is finally "getting to" investors. They monitor their portfolios, they check the price of their mutual funds, and it's beginning to dawn on them that they are no longer piling up capital gains. That fact, that process, is going to exert a subtle mind-change on the investing public. Therefore, I've got a new name for this market -- I'm calling it "the great attrition market."

"Is this the way it all ends," I ask myself. "Is this how the great bull market ends?" Not in the dramatic crash which has been forecast by so many bears. Not with a loud bang heard round the world, but with persistent, grinding, month-after-month attrition.

A second phenomenon that I have been pointing to is a function of what I call the "dividend-less" market. With most stocks now paying little or nothing in the way of dividends, this means that if the stocks you own are not rising, you're sitting with "dead wood." You've tied up your money in stocks that are either providing no return or worse -- are costing you money (as market breadth continues to decline).

So here's the market picture as I see it:

The daily new highs topped out at 631 on Oct. 3, 1997.

The advance-decline ratio topped out on April 3, 1998.

The D-J Transports topped out on May 12 at 3783.50.

The Utility Average topped out on June 16 at 333.45.

The S&P 500 topped out on July 16 at 1418.78.

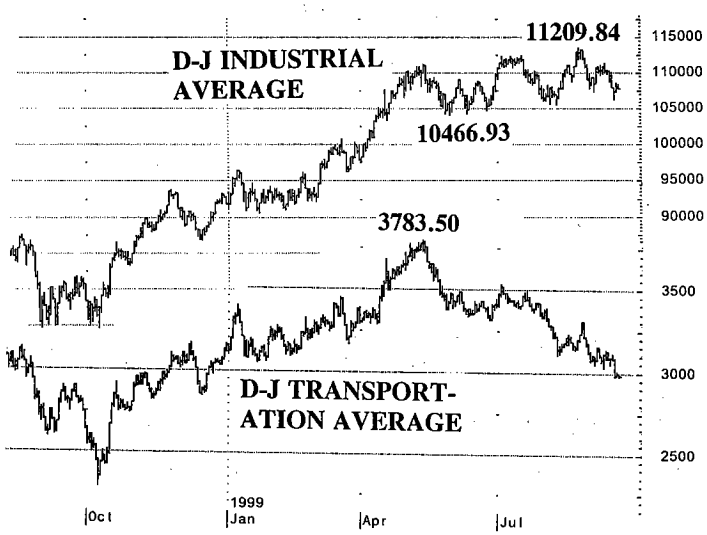
The NYSE Composite topped out on July 16 at 663.12.

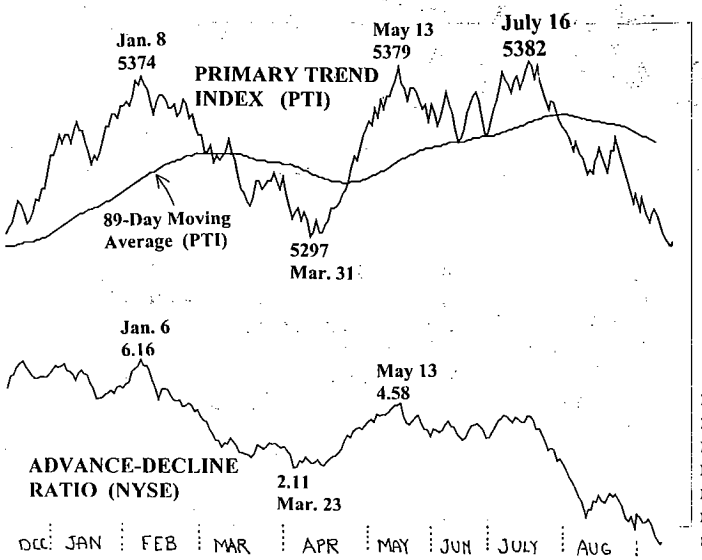
The Nasdaq Composite topped out on September 10 at 2887.06.

The Dow hit its high on August 25 at 11326.04, and may or may not have topped out (I believe it has topped out).

And I ask myself, "Is that all she wrote? Have we seen the top?" Obviously, we don't know now, and we can't know now. What I want to see is whether any of the above averages can reverse and advance to new highs. If they can, such action will be telling us that the bull has not yet given up the ghost. But the longer the above highs hold (meaning they are not bettered), the more suspicious I will become.

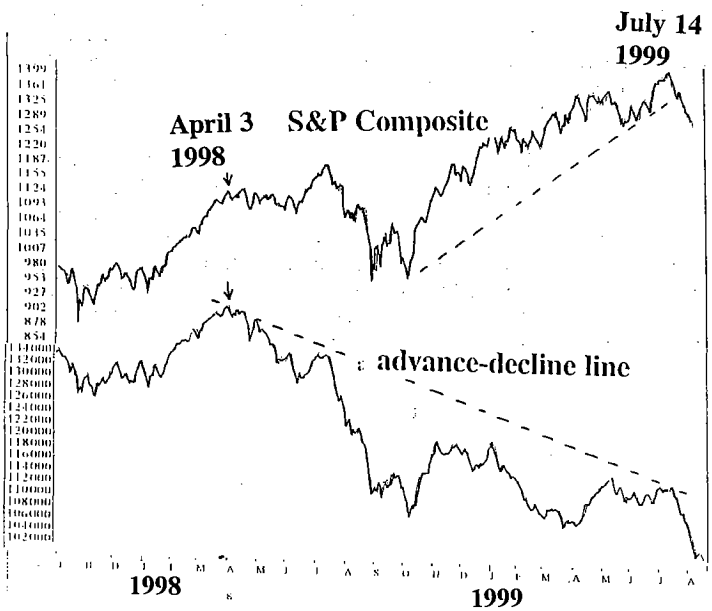
Overview: (1) The Dow Theory tells us that a bull market remains in force unless or until we receive a Dow Theory bear signal. The Transports have already given their half of a bear signal, but as Dow Theorists know, one-half a bear signal is no better than none. For a bear signal, the Industrials would have to confirm the Transports by violating their May low of **10466.93**. So far that has not happened. In the absence of a bear signal, at least technically, it's still a bull market.



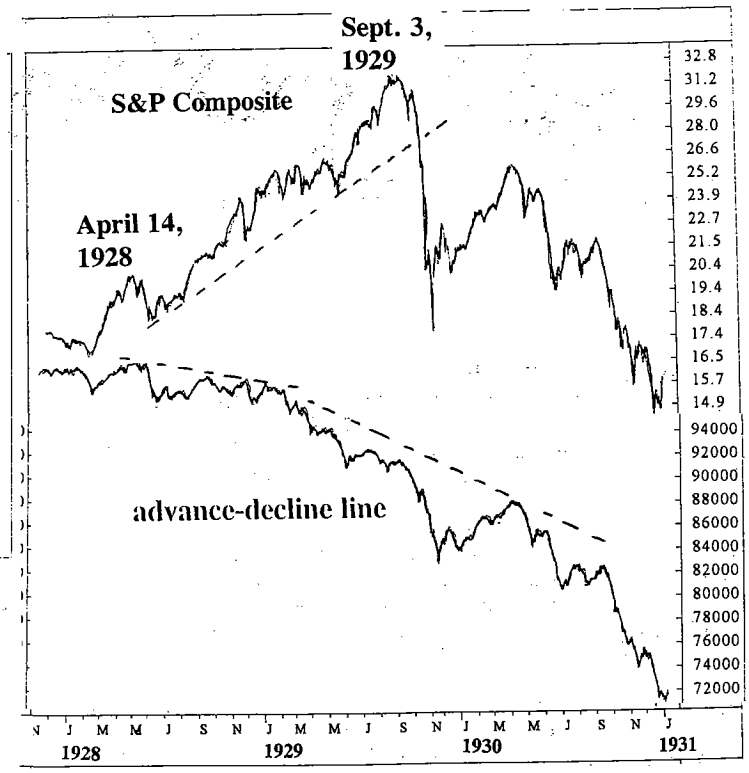


(2) However, there is something else, and it's an important "something else." My **Primary Trend Index is bearish.** It turned bearish back on July 29 when it broke below its 89-day exponential moving average. I took that action very seriously and I told my subscribers, "Everybody out of the water." Time to play it as safe as possible.

(3) Finally -- I've been drawing attention in each Letter and on the website to the **potential "head-and-shoulders" top pattern in the broad S&P 500.** It looks as though the market is now "working" on the right shoulder of that pattern. But let's just be completely neutral -- if the cash S&P can rally above 1383 I would say that the "head-and-shoulders" top thesis was no longer valid, and that would be bullish.



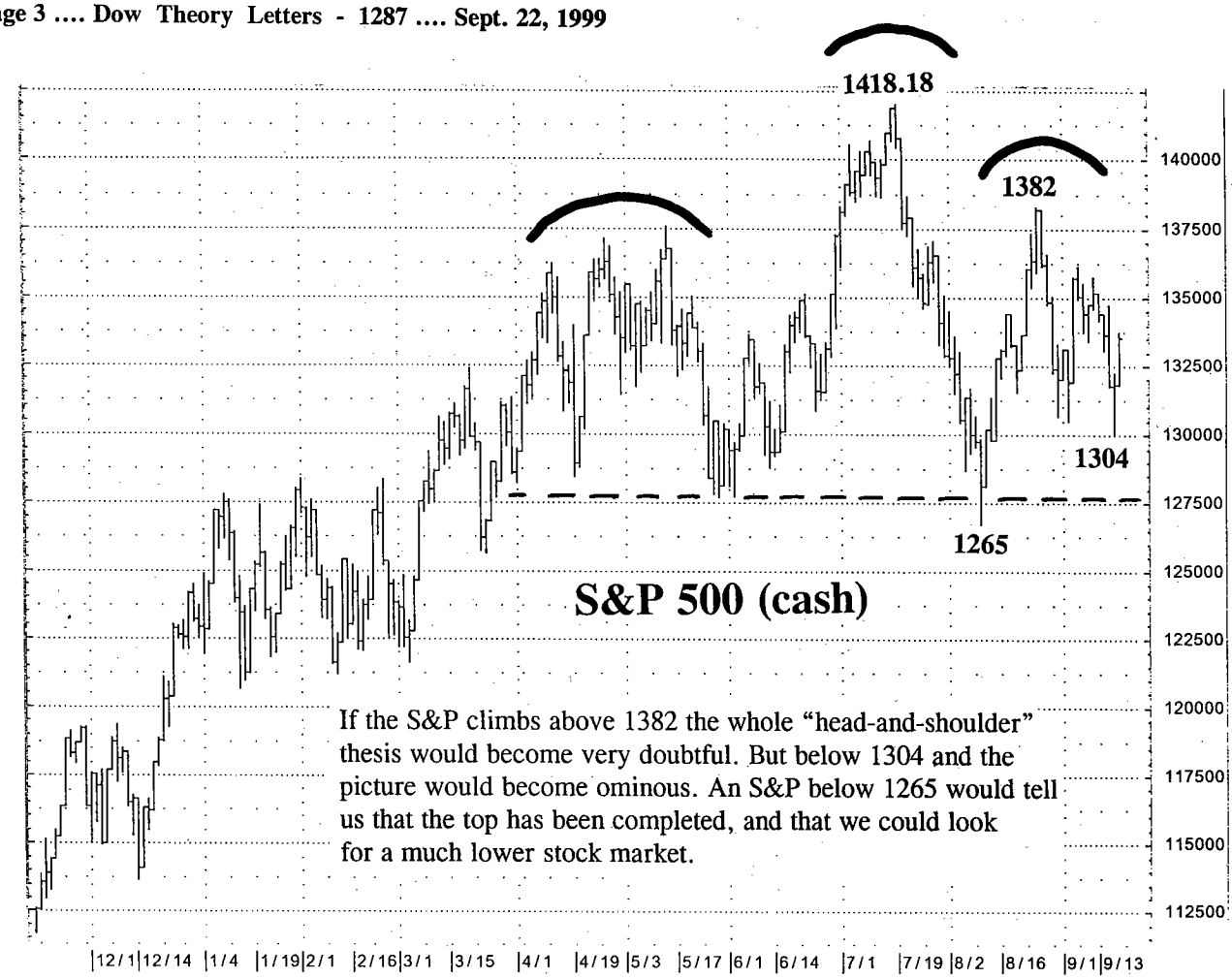
On the other hand, the first danger signal would entail the S&P closing below 1333. On Sept. 14, the S&P did close below that level. The next important level is 1304. If 1304 is violated, the next level to watch is the critical 1265 level. **If 1265 is violated, the top would be completed. A break below 1265 would be a very bearish development.** In fact, if 1265 is violated, I suspect that the Dow would quickly confirm by breaking below its own 10466.93 level and a Dow Theory bear market would be signaled.



PRICE AND BREADTH: I hear occasional references by CNBC commentators to the advance-decline "line," but few of these people ever discuss or even mention the big picture, the current big picture being the significance of the **extended divergence** between price and breadth. And I've wondered why the silence. Here's the answer I come up with: first, I don't think most of the commentators are familiar with the history of major, extended divergences between price and breadth. Second, I don't think the commentators understand how fundamental and ominous the situation is when the majority of stocks, as measured by the A-D ratio, go into an extended decline.

To dramatize the current situation, I'm including two charts courtesy of the Ned Davis Group [(800)241-0621]. The first chart shows the **current price/breadth situation** based on the S&P Composite and the advance-decline line. Here we see that the A-D line topped out 17 months ago, on April 3, 1998. Following the April 3 peak, the S&P and the A-D slumped to lows recorded in September and October of '98. From there the S&P headed higher while the A-D rallied into November and then turned down again. On July 16, the S&P advanced to a new record high. A month later, in August, the A-D ratio slumped to a new low. Last week saw the A-D break to its lowest level since the April 3, 1998 high.

The events of 1928-29 provide an interesting comparison with the events of the last 17 months. The chart documents the **situation that existed during the late-1920s.** On April 14, 1928 the advance-decline line recorded an important peak. On the same day the S&P recorded a peak of its own. From there the S&P worked its way higher, finally advancing to an all-time high on September 3, 1929. During the same period the A-D line headed lower in a series of descending zig-zags. In October, the still-declining A-D finally took the big averages down with it. The move was heard around the world. On October 29, the stock market crashed, accompanied by the then unheard of volume of over 16 million shares. That marked the beginning of a three-year collapse in the stock market -- it also spelled finish to the fabulous "Jazz Age."


1418.18
1382
1304
1265
S&P 500 (cash)
If the S&P climbs above 1382 the whole "head-and-shoulder" thesis would become very doubtful. But below 1304 and the picture would become ominous. An S&P below 1265 would tell us that the top has been completed, and that we could look for a much lower stock market.
140000
137500
135000
132500
130000
127500
125000
122500
120000
117500
115000
112500
12/1 12/14 1/4 1/19 2/1 2/16 3/1 3/15 4/1 4/19 5/3 5/17 6/1 6/14 7/1 7/19 8/2 8/16 9/1 9/13

INVESTMENT POSITION: I've been saying that the "bear market" (and I think we're in one, but based on Dow Theory I can't prove it -- yet) is going to be marked by a LONG period of **attrition** in stocks. And it's been happening; stock after stock, group after group have been subtly eroding away. For instance, 44% of the S&P stocks are down as much as 20%. Almost 40% of the Nasdaq stocks are down as much as 50% from their 52-week highs, and a huge 80% of all Nasdaq stocks are down as much as 20%. All very subtle, not particularly scary, and the whole process covered up by the good action of maybe 100 stocks.

And what's the word from the "experts"? It's "forget about the fluctuations, over the LONG TERM you've got to be in the stock market." **My opinion -- this "hold for the long term" that we hear from all quarters, will prove to be a death warrant.** It's going to be a killer. Why? Because it's providing investors with a reason to hold tight to their stocks even as the bear market wears on. It's going to literally murder investors; "hold for the long term" will prove to be the worst advice they've ever heard.

What will happen over the long term? Over the long term stockholders will finally panic, selling out near the lows. In the market, there's only one emotion stronger than greed -- and it's FEAR. Fear will finally win out, and the losses will be huge.

So what's the correct posture? In my opinion, the place to be is in T-bills or short T-notes.

NOTES & QUOTES: History may record the period of the last 10 years as the time when free markets became more important and more powerful than the world's increasingly impotent governments. There's no question about it in my mind -- the great force of the last decade has been free markets. What's behind the growing power of free markets? One word -- technology and communications. The Soviet Communist empire fell when computers and faxes pierced the iron curtain. When the power of free markets were seen via TV and computers, nations had their choice -- adopt the free market or be history. It's happening now all across the globe. For instance, this from the Sept. 7 *International Herald Tribune*: *"France Stealthily Accepts Free Markets. In a front-page story last month, the newspaper, Le Monde, announced that the French left now accepts the validity of market forces after years of struggling against them. The conclusion was drawn from polls showing surprisingly wide support for economic globalization in a nation notoriously shy of open markets."*

* *

Subscribers know that I've been skeptical about AOL and about the profit-potential of many of the Internet stocks. One reason I've been skeptical is that it's so easy to set up a web site, and it's so easy to get a good idea financed (investment bankers and venture capitalists are constantly searching for hot concepts). In other words, the competition is white hot in every area of the net (fact: so far in 1999 over 140 web IPO's have been floated).

American Online has been one of the big winners on the web with currently over 17 million subscribers. An article in the September 6 *LA Times* was so incisive that I want to repeat some of it. The following discusses why I believe that the Internet is basically hostile to profits and why it will become even more so.

"America Online became the behemoth of cyberspace with a four-legged strategy that now seem obvious. Give the masses an easy link to the Internet, give them something to do there, let them meet a few other human beings and then charge a low enough price so they won't leave. It's only taken 14 years, but the rest of the online world is catching up, leaving AOL to figure out how to survive in a world where its pioneering strategies in ease of use, content and pricing are no longer that special. In some cases, AOL is now lagging behind the cutting edge.

"What AOL is facing is a process that has been repeated in virtually every part of computing -- the gradual 'commoditization' of services or products and the transformation of the industry into a buyer's market. In a larger sense, the process marks the turning point in the development of cyberspace -- a shift in the landscape that could bring new alliances, cheaper prices for consumers and broader methods of communication. It also holds potent risks that could fracture AOL's valuable franchise.

"How far a brand name will carry AOL into the future is uncertain when so many other companies are beginning to learn how to duplicate AOL's winning model and sometimes beat AOL at its own game. The vast collection of news and information that once made AOL a gem in the morass of cyberspace has been picked apart by web portals such as Yahoo and Excite. The bundled deals computer-makers such as Dell and Compaq have struck with Internet access providers make connecting to the web just as easy as AOL. And as for price, AOL's standard fee of $21.95 a month is beginning to look pricey compared with the free net access from such companies as Alta Vista and Netzero. Rumors abound that Microsoft will attack soon with its own low-cost access plan."

Russell View on the Internet: I'm of the opinion (and this is a very general statement) that **net stocks cannot make money selling information.** There's just too much free information on the net, so much that I doubt whether the public is going to pay for information. Microsoft had its *Slate* magazine on the net, and they charged, I think, $30 a year for the mag. MSFT had to drop the charge, the public wouldn't pay for it. TheStreet.com came out with a highly-touted IPO, and the *NY Times* even bought a piece of it. TheStreet.com charges around $100 bucks for a year if you want to read all their info. I've followed this site since it opened, and I've already lost interest in it.

What about Dow Theory Letters? I thought about this long and hard. What I do is sell not only information but **my opinions** on what's going on. On top of this, I don't charge extra for my daily run-down and comments on the net, it's just an extension of my Letter and thus my net updates are free. Information and facts are a dime a dozen on the Internet, and that's great -- I love all this info. But I won't pay for it. However, worthwhile opinion is something else, and that's what I try to offer on my website (www.dowtheoryletters.com) -- at any rate, subscribers seem to like it.

* *

Frantic: Is it just me? I don't think so. I have the strong impression that this nation is frantic, semi-hysterical, almost spinning out of control. In every area there's this feeling of speed, extreme competitiveness, money, more money. Today it isn't enough for a corporation to do OK, for its stock to be stable, for it to cover the dividend safely. Today the stock has to go up or else. Its employees are constantly looking for better jobs somewhere else, its CEO and top officers better be "growing the business" or they're history, and everybody is looking over his or her shoulder. The trend now is to merge and cut expenses by firing employees. Actually, lay-offs this year are running at double the rate of '98. A new book has been published entitled, "The Acceleration of Almost Everything" by James Gleick. The conclusion in the *NY Times* review: "Implicitly, 'faster' contains a darker judgment. What we lose, as 'just about everything accelerates' is the chance to reflect, to analyze, and ultimately, to come up with moral judgments."

* *

A recent cover of the *New Yorker* magazine featured "Hellhampton" and the meaning was clear enough. This once-quiet area of Long Island has now become a crazy, over-populated mess -- no longer a place to relax, it's now a place to be seen along with such media stars as Steve (pardon me, Steven) Spielberg and the Clintons. Today there's a frantic battle to get into the best colleges, a frantic tussle to get high SAT scores, a frantic push to get into the best restaurants, a frantic fight to get the most "hits" on the Internet, hysteria to produce the best revenue statistics of the week or month for your pop singer, your band, your latest film, your corporation, your anything. Day-traders, gamblers, video gamers, all are frantic. IPOs are coming out daily -- grab the money while the grabbing is good, get on the net, get thin, get great abs, reduce your thighs, do it, do it. Professional sports? Get the most money, the most home runs, the most 100-yard games, get waived, get with another team, get the most promotions, get to the Super Bowl. Get a lot of sex, get a heart attack. Travel, travel, get away, get to the country, get to another country, get a first-class ticket, get a first-class ticket to anywhere. And that's the way I perceive the current picture. It's frantic, it's unhealthy, it's crazy, it's the vida loca, baby. Question: Is the frantic-ness just an American disease? According to the latest statistics, Americans are leading the world in hours worked. Americans worked an average of 1,966 hours at work in 1997 (the last year analyzed), and that's 4% more hours than they worked in 1980. So has technology made life easier for Americans? You do the math. Cover story from the latest *Fortune* magazine: "Young and Rich, the 40 Wealthiest Americans Under 40. They're amassing fortunes faster than any generation in history." Gosh, it's not enough that they're amassing big bucks, they've got to do it in a hurry?

* *

The Growing Gap: Writes the *NY Times,* "The gap between rich and poor has grown into an economic chasm so wide that this year the richest 2.7 million Americans, the top 1%, will have as many dollars to spend as the bottom 100 million Americans. That ratio has more than doubled since 1977, when the top 1% had as much as the bottom 49 million, according to new Congressional Budget Office information . . . IRS tax-return data show that two-thirds of Americans earned less than $40,000 in 1997 . . . Many Americans who make $80,000 to $120,000 a year think of themselves as middle-class. But the fact is that while these people are not rich, they are also not in or even near the middle, which is only about $32,000 in after-tax income." **Russell Comment:** I've said it before -- today you're either in the new high-tech and Internet economy and enjoying a high income -- or you're stuck in the old economy where you're selling washing machines or tightening bolts in a car factory.

* *

The great budget joke continues. Already, spending has all but eliminated the much-touted "surplus," and it looks as though we're going to have another deficit. According to an article in the Sept. 6 *WSJ,* "Headlines boast of future surpluses big enough to fund new Medicare drug benefits or tax cuts worth hundreds of billions of dollars. But weeks before the start of the new fiscal year, all sides are looking under toadstools to avoid borrowing from the same Social Security funds they promised to lock away. No amount of gimmicks seem to make the numbers fit. Strict spending caps -- needed to finance the GOP's $792 billion tax cut -- have all but collapsed and require upward adjustments. And even the most optimistic scenario, Republicans are billions short as they try to cope with the must-pass appropriations bills to keep the government operating after Sept. 30." **Russell Comment:** Try as they might, the pols can't balance the budget because they can't stop spending more than they're taking in. On top of that, the **compounding process** continues to pile up more and more on the national debt. Over the last 12 months the national debt has **increased by $113 billion** or more than $2 billion a week. The relentless compounding process is slowly but surely driving the national debt through the roof.

* *

Who's really running the nation? According to what I read, it's teen-age girls. Their buying power is in the billions of dollars, they're cute, they're sexy, they're setting the trends. In TV the word is that if you're over 21 you're through, the networks can't use you . . . Wait there's another trend that's taking over the country. It's the Hispanic craze. Ricky Martin, Jennifer Lopez, the vida loca -- tacos, tortillas, everywhere you look it's the Hispanic trend. I only wish I could speak Spanish.

* *

The latest *Forbes* magazine questions what's happening in the NFL. And I've questioned it, too. For instance, Daniel Snyder just paid $750 million for the Washington Redskins and their stadium. At 6% (what he would get if he just put the money into T-bonds) Snyder could take in $45 million a year (no state taxes). But Snyder borrowed $500 million to buy the club. Can he stay this side of bankruptcy on the deal? I don't know, but he's going to have to sell an awful lot of luxury boxes and toys and sweatshirts to swing the deal . . . Of course, this doesn't apply to the old timers. In 1959, Texas Oilman Lamar Hunt helped organize the new AFL, consisting of 8 new teams. Each franchise sold for $25,000. Quite a difference, $25,000 and $750 million. One is a value, the other is a very expensive ego trip. Pro teams -- the squeeze is on.

* *

I haven't talked about chelation for a while (I'm still taking the treatments at the first of every month). Subscriber and famed author Arthur Hailey was kind enough to send me this clip from Maclean's magazine of Canada. For further information on chelation, hit the Internet -- it's all there.

Chelation testimony

Although chelation therapy may be "scientifically" unproven and therefore not approved by medical associations, we have witnessed many proofs for this alternative treatment for heart trouble ("An alternative to bypass surgery?" Health, July 12). My wife, Evelyn, ended up in hospital in late November, 1995, as a result of a heart attack. She had double-bypass surgery and supposedly the problem was solved. However, she did not recover well and continued to lack energy for months that stretched into years. Finally, in desperation, Evelyn took chelation therapy in New York state. She was soon feeling better and has continued to improve even though she has completely discontinued the blood pressure and heart medications prescribed by doctors here. The Ontario health plan, OHIP, likely paid about $65,000 for the bypass surgery, which did not produce acceptable results, whereas we spent only about $3,000 for the chelation therapy. Both the results and good financial management would seem to favour serious consideration of approving this procedure under provincial health plans.

Eugene C. Perry, Beamsville, Ont.

* *

Are we being "over-sported"? Or are sports becoming just too money-oriented and commercial? Or are there too many other more interesting things to do and watch? Consider this: the June NBA championship series saw its audience drop 39% from the previous year. The '98 baseball World Series attracted the smallest TV audience in history. The college basketball championship game in March got the lowest rating in 17 years. The Masters golf tournament saw a drop in viewership for the second year in a row. Meanwhile, professional wrestling is booming, particularly among young viewers. What's happening? I think people are just getting bored. Like the jaded (and bloodthirsty) ancient Roman audiences, viewers want more action, more blood, more thrills. And even though it's phony and scripted, that's what pro wrestling provides. It's mayhem by design, and the audience loves it. A sign of the times?

* *

Is there a resident guru on Wall Street today? Abbey Joseph Cohen of Goldman is probably the most influential analyst in the industry today. Cohen has a target of 1450 for the S&P next year. That would be a rise of about 10%, a toning-down of her general optimism. It's clear to me that Cohen takes little account of the market's technical action. My guess is that she is on the way to being wrong.

* *

The entertainment world was wide-eyed on September 7 when it was announced that Viacom was buying CBS for $37 billion. The best newspaper writing about entertainment comes from the *LA Times,* which caught the essence of this merger. Writes the *Times,* "This could be the media company of the 21st century because of the combined companies' clout with advertisers. The combined companies will have advertising sales three times the level of Time Warner and double the level of Disney's -- that's the most interesting part of this deal. The combined companies will bring in an estimated $10.7 billion in advertising revenue this year, compared with News Corp.'s $5.8 billion, Disney's $5.1 billion and Time Warner's $3.8 billion."

* *

Are PCs the wave of the future? Microsoft no longer believes it. MSFT believes in the Internet, which is the way MSFT is heading. MSFT wants to be king of the net, and it will be cooperating with software programmers, aiding them in developing more sophisticated programs. **Russell Opinion:** Is it simply the sheer amount of customers that rule the web? In my opinion, **it's content that will rule the web,** just as it rules movies and newspapers and magazines. In time, everyone will be into web technology; the technology itself will be a non-event -- it's what you offer on the net that will be the key. So far, MSFT has not been successful in providing interesting or exciting material on the net. So they are trying to control the software of the net.

Finally, even the *WSJ* said it. And here's what it said (Sept. 17): "You don't need a personal computer. If you're like most people, your PC is the most unreliable device you own. Now you can scrap it: for anyone who just wants E-mail and Web access, Walt Mossberg finds new gadgets that do both -- without the headaches." That's right, if your PC was a car, you'd apply the lemon law. I've had PCs for years -- they flash and black out, they crash, they screw up, they jump to another program on a whim, they produce capital letters for no reason. I even had one PC die on me, the damn thing just rolled over on its back and died. I threw it out and bought another. The only thing good about PCs is that they constantly get cheaper and more powerful.

* *

Subscribers, if you aren't on my website because you don't want to wrestle with a PC, go to your nearest computer store and check WebTV; this simple device now has a million users and it's owned by Microsoft. There's no reason now for not getting on the net. WebTV will get you on the net and allow you to use E-mail. It's cheap, it's easy, and you won't have to be one of us poor devils who are doomed to using PCs.

* *

Ah, communications. I told my subscribers about my lousy, arthritic feet, and I asked if anyone had any thoughts about a cure. Next day I received 52 e-mails with all kinds of helpful thoughts and remedies. It's amazing. Between the 4,000 subscribers on my site, I think they could come up with the answer to almost anything except maybe -- where will the market be on the last day of the year.

* *

Slowly, very slowly, it's dawning on the investing public that the Internet is going to be fantastically competitive. Last week it was announced that Microsoft, Dell, Lycos, and Excite had formed a consortium to compete with Ebay in the auction business. Now when an item comes up for auction a number of different sites will be able to deal with the item. This should hit Ebay very hard, although it may take a little time.

* *

So far, as is the case with video stores, the biggest money-maker on the Internet is porn. In fact, to compete with the net and also with cable TV the public broadcasting corporations are now

moving heavily into sex; almost every sitcom is now drenched with (mostly teen-age) sex. Violence is out -- sex is in. Well, let me revise that -- violence and sex are both in.

MORE MARKET NOTES: This is a daily chart of the NYSE Composite, which includes all the stocks on the NYSE. Note that here, as with the S&P, we see a "head-and-shoulders" top. But in the case of the much broader NYSE Composite, the H&S top is more advanced. On August 10, the NYSE Composite recorded a low close at 603.37. A rally formed the right shoulder of the pattern -- and on September 16 the NYSE Composite tested the low. The Composite sank down to 601.02 but closed at 607.32.

The question now is whether the extreme low close of 603.37 (the August 10 low) will hold. Watch the NYSE Composite to hold or violate **603.37. This is a critical level.**

Question: Russell, what do you think the chances are that the potential head-and-shoulders patterns in both the S&P 500 and the NYSE Composite will be completed; in other words, what are the chances that these patterns will break down?

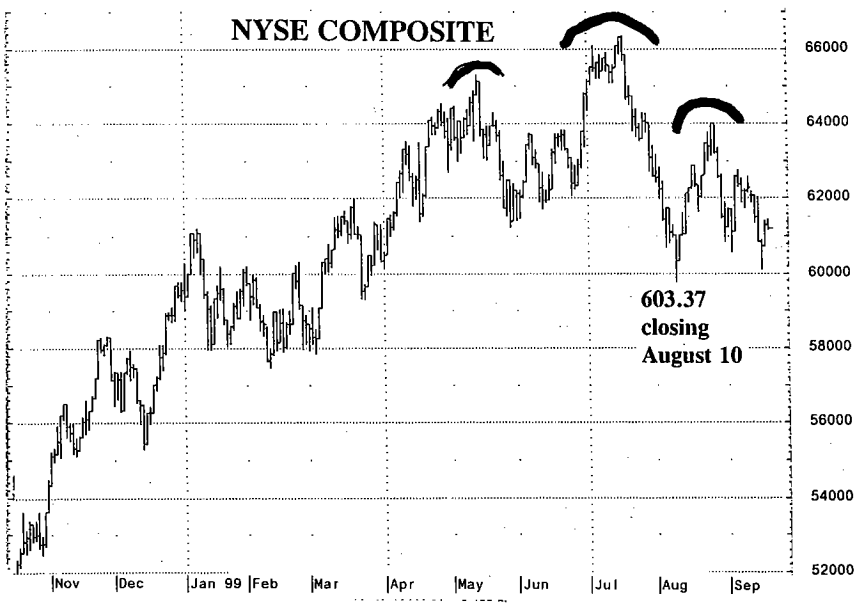
Answer: When patterns such as these two appear this clear, this definitive -- it strongly suggests distribution (i.e., stronger selling than buying). In my experience, about two-thirds of these head-and-shoulders patterns go to conclusion; in other words, they break down. It may take more backing and filling and working sideways, but I think the odds are pretty strong than these patterns will break down (and of course, that's very bearish for the market in general). I think this is particularly true because breadth is so poor -- even on days when the market is rallying.

One phenomenon which is drawing out the right shoulders of both patterns is the extraordinary bullishness which has been (and still is) "built" into this market. Day after day the S&P futures open up -- then selling comes in and the market works lower, often closing down for the day with breath dreadful as usual. But no question about it, every day trader comes in, in their never-ending attempts to "catch the bottom before the market takes off on the upside." That, I believe, is the prevailing attitude -- "Buy 'em at the opening because every down-day constitutes a golden chance to grab stocks at the bottom."

I continue to be fascinated by the action of AOL. The stock hit a high of 175 ½ back in April. Currently it is showing a series of lower peaks and lower lows. The 144-day moving average (shown on the chart) stands at 94, and AOL is now below its moving average. The key level here is the 83 15/16ths close of August 5. Below that, and I consider the stock a major top out -- with the market saying that there's "trouble ahead for this company."

The reason I'm fascinated with AOL is that so far, they seem to have done everything right. They have over 17 million subscribers and they are a power house, maybe THE power house of the web.

AOL is just about at the halfway level of its entire rise since the stock came out. Below 80 and AOL would have given back more than half its rise, and technically, that would be a bearish indication. At any rate, I continue to be fascinated with AOL's action. Will it break 83 or won't it? Let the market tell us the story, but believe me, it is a very important story, one of the MOST important of the Internet.



GOLD: The yellow metal just doesn't look that great. I'm watching the Dec. contract, which hit an extreme intra-day low on August 25 at 253.80. As I write this, Dec. gold is only two dollars higher -- not good. Without a concerted rise in gold, the metal, I just don't see how the gold shares are going to do much from here.

I have advanced the revolutionary idea that we might take the gold action at face value (ignoring all central bank actions, ignoring all rumors, ignoring everything but the actual price movement). If we take gold at face value, what could it be telling us? Only one thing, as I see it, and that is deflation somewhere ahead. Sure gold is cheap. Sure an ounce of gold is always supposed to buy a man's suit. Well, it buys a cheap suit now, not an Armani beauty. So yeah, gold "should be" three or four times what it's priced at today. But it isn't. And the mystery of gold goes on -- mystery, that is, unless gold is saying "deflation ahead."

NEXT MAILING: Oct. 6, 1999